

**PUBLIC EMPLOYEES' RETIREMENT FUND
INDIANA**

**PUBLIC
EMPLOYEES'
RETIREMENT
FUND
OF INDIANA**

**2002
Member Handbook**

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YOUR RETIREMENT PROGRAM

The Public Employees' Retirement Fund (PERF) was created on July 1, 1945, with the passage of the Public Employees' Retirement Act. Since then, the Fund has faithfully served its members and their employers, providing a wide range of retirement services and grown from a single pension trust fund to a retirement system of seven separately managed retirement funds serving a broad spectrum of public employees. This guide details the plan provisions for the largest of those managed funds – the namesake, Public Employees' Retirement Fund.

The Indiana Constitution was amended by referendum on the 1996 general ballot to enable state pension funds to invest in equity markets, lifting the constitutional prohibition of investing public assets in the “common stock of any company.”

In the 2000 General Assembly, the legislature reconstituted PERF as a “separate body corporate and politic” from the State of Indiana. Although the Fund has changed in legal structure, its primary functions have not changed and PERF continues to provide an essential service to public employees.

ADMINISTERING THE FUND

The Fund is governed by a five-member board of trustees appointed by the governor to staggered, four-year terms. State law mandates that one of the trustees must be a member of the Fund with at least 10 years of creditable service, and not more than three of the trustees may be of the same political affiliation.

The Executive Director is appointed by the Board and charged with the day-to-day administration of the Fund.

BECOMING A MEMBER

When you begin employment in a PERF-covered position, you become a PERF member. Both the employer and the employee are responsible for completing a section of the Membership Record (Form 34413). Upon completing your Membership Record, your employer should submit it to PERF for you to become enrolled in the Fund.

When the Membership Record is received, PERF establishes an Annuity Savings Account for you. The Annuity Savings Account consists of your contributions (whether paid by you or by your employer) and interest credited on these contributions.

CONFIDENTIALITY OF FUND RECORDS

Effective July 1, 2001, all Fund records of individual members and membership information, except name and years of creditable service, were made confidential under state law. The general release of member information may commence only at the discretion of the member, the member's designated power of attorney, the member's selected representative of their estate, or by court order.

THE BENEFITS STRUCTURE

The PERF benefits structure is made up of two separate and distinct parts:

- (1) A Defined Benefit Pension*
- and*
- (2) The Annuity Savings Account*

There are many differences between the two pieces serving unique purposes. The Defined Benefit Pension is designed to provide a retirement benefit guaranteed by state law and based upon your years of service and average salary. The Annuity Savings Account is essentially a “forced” savings account that can be used to supplement the Defined Benefit Pension at retirement, or to be portable enough to take with you if you choose to leave PERF-covered employment prior to becoming eligible for the pension.

This guide is designed to show you how the Defined Benefit Pension and the Annuity Savings Account work together and individually to provide you a retirement benefit for your public service.

BENEFIT #I

THE DEFINED BENEFIT PENSION

THE DEFINED BENEFIT PENSION

ELIGIBILITY REQUIREMENTS

Your eligibility for the Defined Benefit Pension is determined by two factors:

- age; and
- creditable service in a PERF-covered position.

CALCULATING YOUR DEFINED BENEFIT PENSION

The first and larger-portion of the overall PERF benefit structure is the Defined Benefit Pension. The pension benefit is calculated using a formula, which is established by state law:

$$\begin{array}{c} \text{YEARS OF CREDITABLE SERVICE} \\ \times \\ \text{FINAL AVERAGE SALARY} \\ \times \\ \text{MULTIPLIER OF .011} \end{array}$$

EMPLOYER CONTRIBUTIONS

There are two separate streams of contributions that flow into PERF to fund the two pieces of the overall benefits structure – employer and member contributions. Member contributions will be discussed in the section detailing the provisions of the Annuity Savings Account (See page 16).

Your employer is responsible for funding your Defined Benefit Pension. Consequently, your pension benefit comes at no cost to you as a member of the Fund. The amount of those employer contributions is determined annually by an actuary.

FINAL AVERAGE SALARY

“Final Average Salary” refers to your highest five years of compensation in a PERF-covered position. Your employer reports your wages to PERF each quarter, along with the contributions made to fund your pension and annuity. In the calculation of your retirement benefit, PERF considers four consecutive quarters as a year. Those four quarters may fall within the period of two separate calendar years.

We calculate your final average salary using your highest 20 calendar quarters (five years) of compensation and any additional payments made at the time of termination, up to \$2,000 (for example, pay for unused sick or vacation days, severance, etc). Consequently, the 20 quarters used in calculating your benefits do not have to be consecutive, but they must be the five highest occurrences of four consecutive calendar quarters.

CREDITABLE SERVICE

You will receive service credit for each period of continuous employment in a covered position, beginning with the date of hire and ending with the last day in pay status. In addition, you may be entitled to service credit during military service and certain types of leave (See ‘Purchase of Additional Service Credit’ on page 12).

All members, except school corporation employees, must work twelve months in a PERF-covered position to obtain one full year of service credit. A school corporation employee who works the full school term or contract period for their position will receive credit for one year of service. Otherwise, service credit for school corporation employees will be granted for actual time worked.

All creditable service is subject to verification and must be certified as creditable by the governing body of the employer or its agent.

VESTED STATUS

Vested status means you have met the creditable service requirement to receive a pension benefit from a retirement fund like PERF. You must have at least 10 years of creditable service to become vested in the Defined Benefit Pension under PERF. When you attain vested status, you will be entitled to benefits when you meet the age requirements for either normal or early retirement, which are discussed in a later section (See page 27).

NOTICE ON VESTING

If you terminate employment after becoming vested with at least 10 years of creditable service, but before becoming age eligible to receive pension benefits, you will retain your rights for a future claim of your Defined Benefit Pension only if your Annuity Savings Account funds are not withdrawn. Your Annuity Savings Account balance will continue to be credited with interest until you initiate a retirement benefit. If the funds are withdrawn, you will permanently forfeit your vested right to a pension unless you return to a PERF-covered position at a later date for a period of at least six consecutive months, at which time all prior service will be reinstated.

MILITARY SERVICE

Members who served in the United States armed services are eligible for PERF service credit equal to their actual military service if they meet all of the following conditions:

- were in a PERF-covered position prior to entering the military,
- left their PERF-covered position and went directly into the United States armed services,
- did not withdraw their Annuity Savings Account, and
- left the military service and returned to the same employer in a PERF-covered position within 120 days after receiving an unconditional discharge.

You may also be eligible for service credit if your military service is covered by the provisions of the federal Uniformed Services Employment and Reemployment Rights Act (USERRA). The conditions for USERRA eligibility are:

- You must hold or have applied for a civilian job. (Note: Jobs that employers can show to be held for a brief, non-recurrent period with no reasonable expectation of continuing for a significant period do not qualify for protection.)
- You must have given written or verbal notice to the civilian employer prior to leaving the job for military training or service except when precluded by military necessity.
- You must not have exceeded the 5-year cumulative limit on periods of military service.
- You must have been released from military service under conditions other than dishonorable.

- You must report back to the civilian job in a timely manner or submit a timely application for re-employment.

If you believe that you meet these guidelines entitling you to PERF service credit for your United States military service, please contact PERF.

UNPAID LEAVE

A member may be entitled to service credit for unpaid leaves of absence totaling six months or less during any four consecutive years. This leave must be approved by the employer and a copy of the grant of leave of absence must be filed with PERF within 90 days after the leave commenced.

Creditable service for an unpaid authorized leave of absence at the end of the employment will not be granted unless the employer accepts the additional pension liability for that leave of absence period and:

- the leave is medically related, or
- the member was laid off in accordance with a written policy of the employer (a copy of the policy must accompany the request for the creditable service).

FAMILY AND MEDICAL LEAVE ACT (FMLA)

An employee may also receive credit for up to twelve weeks of leave taken during a calendar year under the federal Family Medical Leave Act (29 USC 2601, *et seq.*). However this leave is creditable only for the purposes of determining eligibility and not for calculating benefits.

ADOPTION LEAVE

You are entitled to up to one year of service credit for Adoption Leave.

PAID LEAVE

During a paid leave of absence, employer and employee contributions will be made and creditable service will be granted.

TEACHING SERVICE

If you retire from PERF with service in both PERF and the Indiana State Teachers' Retirement Fund (TRF), your pension will be computed and your vested interest will be determined on the basis of combined creditable service. Any annuity will be computed on the basis of total amounts credited to both PERF and TRF Annuity Savings Accounts.

For example, if a member served as a teacher for a period of 8 years, and was covered in the TRF, then subsequently accepted a position in school administration that was covered under PERF for a period of 4 years, the TRF and PERF service would be combined into one benefit based on 12 years of total service. Since the member ended their service in a PERF-covered position, the benefit would be paid by PERF.

PURCHASE OF ADDITIONAL SERVICE CREDIT

Members also have the ability to purchase additional service credit that can be used in the calculation of the Defined Benefit Pension. This section applies to those members who have worked in similar positions in another state or have prior military service outside normal military service credit explained in the previous section.

OUT-OF-STATE SERVICE CREDIT

State law provides for the purchase of out-of-state service credit with the Public Employees' Retirement Fund.

In order to qualify for the purchase of this credit, you must meet the following criteria:

- You must have at least one year of service in a PERF-covered position.
- Prior service in another state must be in a comparable position that would be creditable service if performed in Indiana.
- You are no longer eligible to use those years to claim a retirement from any other retirement system.

The funds used for the purchase may come from:

- a direct payment by the member;
- a distribution from a retirement plan of a former employer which is qualified under Section 401(a) of the Internal Revenue Code;
- an annuity or account under Section 403(b) of the Internal Revenue Code; or

- an eligible deferred compensation plan maintained by a state or a political subdivision under section 457(b) of the Internal Revenue Code.

MILITARY SERVICE CREDIT

Effective July 1, 2001, active PERF members who served in the United States Armed Forces and were honorably discharged may now purchase up to two years of military service credit at actuarial cost. This is in addition to any other military service credit that is granted by law to members.

Military service will not be used for vesting purposes. Therefore, to become eligible to retire, a member still must have 10 years of actual PERF-covered service to become vested for the Defined Benefit Pension. The additional military service will be included in the member's benefits calculation.

Members may make the purchase of service after they have been in the Fund for a period of one year. To determine the cost of purchasing this military service, contact the PERF office. We will send you a Military Service Estimate form.

If you meet these criteria and are interested in purchasing credit for out of state or military service, please contact PERF for information on applying.

BENEFIT #2

THE ANNUITY SAVINGS ACCOUNT

THE ANNUITY SAVINGS ACCOUNT

The second piece of the PERF benefit structure is the Annuity Savings Account. Your Annuity Savings Account is completely separate from the Defined Benefit Pension, and the Annuity Savings Account has a separate set of payment options. The Annuity Savings Account is also funded by a separate contribution from the Defined Benefit Pension.

Unlike the pension benefit, you are immediately vested in your Annuity Savings Account and may elect to withdraw your contributions and subsequent earnings at the time you leave PERF-covered employment. However, remember if you are vested for the Defined Benefit Pension, there are serious consequences to withdrawing your Annuity Savings Account prior to retirement (See ‘Notice on Vesting’ on page 8).

YOUR BENEFICIARY

On your Membership Record you may name either single or multiple beneficiaries to receive your Annuity Savings Account if you die while in active service. In lieu of a named individual, you may designate a trust, estate, or other legal entity as your beneficiary.

The importance of reporting your change of beneficiary cannot be overemphasized. Failure to make changes could result in payment being made to a previously designated beneficiary who is no longer your choice to receive your Annuity Savings Account balance.

MEMBER CONTRIBUTIONS

MANDATORY CONTRIBUTIONS

As a covered employee, state law requires that 3% of your gross wages (regular and overtime pay) be contributed to PERF to fund your Annuity Savings Account.

Local units of government, schools, and universities are given the option of paying their employees' 3% contributions as part of a wage adjustment. If local government units, schools, and universities wish to pay the 3% contributions for their employees, the employer's governing body must make that decision. Indiana law requires the State of Indiana to pay the 3% contributions for state employees.

Regardless of whether you make the 3% contributions or your employer does on your behalf, those contributions are considered *member* contributions and are sent to PERF for deposit in your Annuity Savings Account. These contributions and accumulated interest credits are refundable to you should you terminate employment prior to becoming eligible for the Defined Benefit Pension. You are not permitted to withdraw funds from your Annuity Savings Account for any reason other than a refund, rollover to an IRA, or at retirement when you separate from PERF-covered employment.

You will receive a quarterly statement of account reporting your contributions and interest credits in your Annuity Savings Account.

VOLUNTARY CONTRIBUTIONS TO ANNUITY SAVINGS ACCOUNT

Members of PERF may also contribute up to an additional 10% of their compensation, on top of the mandatory 3% contribution, into their Annuity Savings Account. Like the mandatory 3% contributions, interest and earnings on additional voluntary contributions will be tax deferred until you take a distribution of your account at retirement or in a refund. However, voluntary contributions will be withheld from your paycheck on a *post-tax* basis. Your employer administers this program through the payroll process. If you are interested in participating, please contact your payroll supervisor for further information.

SELF-DIRECTED INVESTMENT OPTIONS

You have choices on how to direct PERF to manage the money contributed to your Annuity Savings Account. You currently have six different investment options to choose from when investing your account. The money in your Annuity Savings Account is intended to grow and earn money over time and serve to supplement your Defined Benefit Pension at retirement.

You are able to direct PERF to put a portion of your account (present balance and future contributions) into any or all of the investment funds in 10% increments. These investment options have grown in number over the years as the PERF Board of Trustees adds new asset classes to the investment of the overall PERF portfolio. Currently, members may invest in the following self-directed investment options:

- the Guaranteed Fund
- the Money Market Fund
- the Bond Fund
- the S&P 500 Stock Index Fund
- the U.S. Small Companies Stock Fund
- the International Equity Index Fund

More detailed information on the various investment options can be found in the 'Investments' section of the PERF website (www.perf.in.gov).

As of January 1, 2002, members may change the Investment Direction on their Annuity Savings Account once every quarter, to become effective the first day of the next quarter. Investment Direction Forms must be received 30 days prior to the beginning of each quarter to become effective.

For example, if you wanted to change your Investment Direction to become effective in the first quarter of the fiscal year (July 1), then you must submit your Investment

Direction form to PERF by June 1. You may obtain this form from your employer or directly from PERF over the phone or from our website.

REFUNDS

There are several choices you will make as a member of PERF, including how you choose to withdraw the balance of your Annuity Savings Account when you separate from PERF-covered employment. This decision depends on whether you become vested and eligible to receive the Defined Benefit Pension. The payment options of the Annuity Savings Account at the time you become eligible for the Defined Benefit Pension at retirement are explained in the next section (See page 37).

SEPARATION FROM EMPLOYMENT

Federal law prohibits PERF from making distributions from the Fund, including the Annuity Savings Account, prior to a member's "separation from employment." "Separation from employment" means the member's last day of work is at least 30 days before the date that member is eligible to receive a refund.

You should not apply for a refund if you intend to become reemployed in a PERF-covered position. A true separation of service only occurs if you leave PERF-covered employment and do not return to covered employment with ANY PERF employer within 30 days from your date of termination. Also, if you continue uninterrupted employment in any capacity (full-time or part-time) regardless of whether your new position is a PERF-covered position or a position not covered by PERF, in any agency or department of your current employer, you will not be considered separated from employment.

As stated earlier, if you become vested for the Defined Benefit Pension, you must not withdraw your Annuity Savings Account in any fashion if you wish to receive your pension benefits when you become age eligible. Although PERF strongly encourages members not to take a refund of the Annuity Savings Account if they are vested for the pension benefit, the member is entitled to receive a refund at the time they separate from PERF-covered service.

If you have less than 10 years of creditable service, terminate employment, and leave your Annuity Savings Account with PERF, you will only be credited with interest on that money for a period of 10 years after your termination of employment.

You may receive a refund of the amount in your Annuity Savings Account if you:

- are not eligible for either retirement or disability benefits, and
- have terminated your employment and have not been rehired into another PERF-covered position.

These refunded amounts consist of:

- the 3% mandatory contributions made either by you or on your behalf by your employer,
- any voluntary contributions (if applicable), and
- all accumulated interest and earnings credited to your account.

An explanation of your three Annuity Savings Account payment choices follows:

Choice A- To have the total amount of your Annuity Savings Account (less the mandatory withholding for federal income tax) PAID DIRECTLY TO YOU.

Choice B- To have all of the taxable portion of your Annuity Savings Account paid in the form of a DIRECT ROLLOVER to an Individual Retirement Account (IRA) or a Qualified Retirement Plan which has provisions allowing it to accept the rollover on your behalf.

Choice C- (May be selected only if you want a partial rollover amount of least \$500). To have a part of the taxable portion of your Annuity Savings Account paid in the form of a DIRECT ROLLOVER to an IRA or a Qualified Retirement Plan which has provisions allowing it to accept the rollover on your behalf.

If you elect Choice B or C, PERF will deliver to you a check payable to the trustee of the IRA or Qualified Retirement Plan and a separate check payable to you representing your nontaxable portion and any taxable portion not directly rolled over. You will then be responsible for delivering the check to the trustee of the IRA or Qualified Retirement Plan that you specified on your refund form.

SUSPENSION OF MEMBERSHIP AND REFUND OF CONTRIBUTIONS BY PERF

PERF may suspend your membership and refund your contributions if you:

- have not performed any service in a PERF-covered position during the past two years,
- have not attained vested status in PERF, and
- the value of your Annuity Savings Account is less than \$200.00.

If your membership is suspended under this provision, your Annuity Savings Account will be paid to you in a lump sum.

INCOME TAXES

If you elect to take a refund of your Annuity Savings Account, you will be taxed (as ordinary income) in the year received on the following portions of any such refund:

- all 3% mandatory contributions paid by the employer on behalf of the employee;
- all 3% mandatory employee paid pre-tax contributions; and
- all earnings on 3% mandatory contributions and voluntary contributions (if applicable).

PERF is required to withhold 20% of any taxable portion of your Annuity Savings Account which is paid directly to you and not paid in the form of a DIRECT ROLLOVER to an IRA or a Qualified Retirement Plan. There will be no income tax withholding on any amount directly rolled over.

If you are under age 59½ at the time your refund is paid, you may be subject to an additional 10% early withdrawal federal tax penalty on the above taxable amounts.

CAUTION

You should consult the IRS or your professional tax advisor if you need further information regarding the taxes on your annuity refund.

“PUTTING THE PIECES TOGETHER”

YOUR TOTAL PERF BENEFITS

“PUTTING THE PIECES TOGETHER”

YOUR TOTAL PERF BENEFITS

At the time you become eligible to receive retirement benefits from PERF, you will need to make several important decisions regarding how you want to receive your monthly benefits. Those decisions focus primarily on how you want PERF to distribute the two pieces of the overall benefits structure – the Defined Benefit Pension and the Annuity Savings Account. This section explains how those pieces can be distributed together in one total benefit, or remain separate pieces and distributed accordingly.

COUNSELING BEFORE RETIREMENT

If you are within one year of receiving retirement benefits and would like a personal interview with a PERF retirement counselor, you must make an appointment before visiting our office. We need to schedule appointments in order to provide you with the timely and complete service needed to plan for retirement.

To make an appointment, please contact the PERF offices at one of the phone numbers provided on page 46.

CHECKLIST FOR RETIREMENT

1. Complete an Application for Retirement Benefits. (Form 945)
2. Furnish proof of your date of birth.
3. Furnish proof of the date of birth for your beneficiary if you choose a retirement payment option with a joint and survivor benefit payable upon your death.

4. Complete an Authorization for Deposit of Recurring Payment form (Form 39175) if you wish to have your benefit automatically deposited into your bank account. PERF benefits are normally paid by direct deposit.
5. Complete a Federal Tax Withholding form (W-4P) and Indiana Tax Withholding form (WH-4P).

ESTIMATING YOUR BENEFITS

If you are within one year of retirement by virtue of age and service, you may request a written estimate of your retirement benefits from PERF. A written estimate of your monthly benefit can be provided only once a year.

To receive an estimate of your benefits, you should:

- obtain an Estimate Request Form (Form 29211) from your employer or PERF, and
- complete this form, and send it to PERF.

From the information furnished on this form, one of PERF's retirement counselors will prepare a written estimate of your benefits and mail it to you.

If you are not within one year of retirement by virtue of age and service, you may request a copy of the booklet "Estimating Your Retirement Benefits" to assist you in calculating your benefits. This booklet is available from PERF. You may also use the retirement benefit calculator on PERF's website (www.perf.in.gov) to estimate your benefit.

SUBMITTING THE APPLICATION

PERF can accept Retirement Applications only within sixty days of your effective date of retirement. Please take care to complete the Retirement Application properly, as it will be returned to you if incomplete and the processing of your monthly benefit may be delayed.

IMPORTANT NOTICE

Federal law prohibits the Public Employees' Retirement Fund from making distributions from the Fund prior to "separation from employment". Uninterrupted service in any capacity or reemployment that, in effect, is a continuation of employment, prevents PERF from making distributions to the employee from the Fund. Therefore, you should not apply for retirement benefits if you will continue uninterrupted employment in any capacity (full-time or part-time, in a PERF-covered position or a position not covered by PERF) in any agency or department of your current employer.

RETIREMENT DATE

The effective date of your retirement benefits will be on the first day of the month and can be no earlier than the first day of the month following your last day in pay status.

NOTE: If you choose to wait before submitting a retirement application when you become eligible for pension benefits, PERF may only pay six months of retroactive benefits. You will forfeit recovering the time lost between the eligibility and inception dates if it exceeds six months. For example, if you become eligible to receive benefits in January and you wait until October to submit your retirement application, ten months have passed. PERF will only pay you six of those ten months in retroactive benefits.

However, if the Board determines that a member is incompetent to properly file for benefits and choose a retirement date, the retirement date may be any date that is the first of the month after the time the member became incompetent.

RETIREMENT BENEFITS

NORMAL RETIREMENT WITH A FULL (UNREDUCED) PENSION

The Defined Benefit rewards those with more years of service with the ability to retire at an earlier age. As a result, there are three ways you can become eligible to receive full (unreduced) pension benefits under PERF:

1. If you are age 65 and have 10 or more years of creditable service under PERF;
2. If you are age 60 and have 15 or more years of creditable service under PERF; or
3. If you are *at least* age 55 and the sum of your age at retirement and your total years of creditable service under PERF equals 85 or more (known as the “Rule of 85”).

Following are examples of the age and years of service that qualify a member for full (unreduced) retirement benefits:

AGE	SERVICE
65	10 Years
60 through 64	15 Years
59*	26 Years
58*	27 Years
57*	28 Years
56*	29 Years
55*	30 Years

* If a member's age or years of creditable service is a combination of years and months, the Rule of 85 still applies. For example, a member is 55 years and 3 months old and has 29 years and 9 months of service. The combined total of age and years of creditable service equals 85. However you must be at least 55 to qualify for benefits.

EARLY RETIREMENT WITH A REDUCED PENSION

PERF also provides early retirement options, where the pension benefit will be reduced based on your age. You will qualify for early retirement with a reduced pension if you are not in categories 1, 2 or 3 for normal (unreduced) benefits and:

1. If you are between the ages of 50 and 59, and
2. If you have 15 or more years of creditable service under PERF.

Keep in mind, that if you choose to take early retirement, your pension benefits will remain at a reduced level even after you reach 60 years of age.

If you are entitled to early retirement with reduced benefits, the following chart shows how the pension part of the benefit is reduced according to your age.

RETIREMENT AGE	PERCENTAGE OF PENSION
59	89%
58	84%
57	79%
56	74%
55	69%
54	64%
53	59%
52	54%
51	49%
50	44%

AGE 70 AND 20 OR MORE YEARS OF SERVICE UNDER PERF.

If you are age 70 and have 20 years of creditable service, you can begin receiving retirement benefits while continuing to work in a PERF-covered position. A member who chooses to begin receiving monthly retirement benefits while working in a PERF-covered position cannot earn additional service credit towards retirement.

ELECTED OFFICIALS OR PERSONS APPOINTED TO AN ELECTED POSITION WHO ARE AT LEAST AGE 55 WITH 20 OR MORE YEARS OF SERVICE UNDER PERF

A person in an elected position covered by PERF who becomes age 55 and has 20 or more years of creditable service can begin receiving retirement benefits while continuing to work in that elected position. A member who chooses to begin receiving monthly retirement benefits while serving in a PERF-covered elected position cannot earn additional service towards retirement. However, the person may elect to make additional contributions to their Annuity Savings Account.

DISABILITY BENEFITS

Employees are eligible to apply for disability benefits if they:

- have five or more years of creditable service under PERF before the termination of salary, or employer provided income protection benefits, or leave under the federal Family and Medical Leave Act (FMLA), or worker's compensation benefits,

- are determined by the Social Security Administration to be disabled, and
- are receiving salary, or employer provided income protection benefits, or are on leave under the Family and Medical Leave Act (FMLA) as of the onset date established by the Social Security Administration.

When applying for benefits, you must provide PERF with a Social Security Award Letter for disability.

To each of the qualified applicants, PERF will send the following materials:

- Application for Disability Benefits (Form 3476),
- Federal Tax Withholding Form (W-4P),
- Indiana Tax Withholding Form (WH-4P),
- Authorization for Deposit of Recurring Payment (Form 39175).

In addition to these materials, PERF will enclose a Request for Estimate of Benefits form. An employee who wants an estimate of benefits must send this completed form to PERF before submitting the Disability Application.

Employees will be entitled to receive PERF disability benefits for as long as they continue to be eligible for Social Security disability benefits. According to Indiana law, the employee's disability benefits will begin on the first day of the month following the date of disability as determined by the Social Security Administration.

Indiana law states that the disability benefit cannot be less than \$100 per month unless the employee elects to receive either a lump sum payment of the Annuity Savings Account or chooses an option other than option number 10 or 20, which are explained on pp. 32–34.

SURVIVOR BENEFITS

BEFORE RETIREMENT

A surviving spouse or surviving dependent may be entitled to survivor benefits:

- if a member has 15 or more years of creditable service and dies in service, or
- if a member dies out of service while eligible to receive retirement or disability benefits but before applying for them.

If you meet the conditions described above and you and your spouse have been married for at least two years before your death, your spouse qualifies for a monthly survivor benefit for life. If there is no surviving two-year spouse, the survivor benefit is divided between all surviving dependents who are less than eighteen years of age (or older if the dependent(s) are permanently disabled). If there is neither a surviving two-year spouse nor surviving dependents, then no survivor benefit will be paid to anyone.

This survivor benefit was created by the Indiana General Assembly for the benefit of survivors of long-term PERF members. This benefit is separate and distinct from any benefit created by the member's Annuity Savings Account. Whether or not there is a survivor benefit due, upon the death of the member, the Annuity Savings Account will be distributed to the beneficiary or beneficiaries designated by the member on their Membership Record or their most recent Change of Beneficiary form. In this case, the designated beneficiary or beneficiaries can receive the Annuity Savings Account and the survivor benefit if they also happen to be the surviving spouse/dependent.

A surviving spouse/dependent who also is the designated beneficiary of the member's Annuity Savings Account is entitled to receive that Annuity Savings Account.

IMPORTANT NOTICE

If a member dies before retirement, either the employer or the deceased member's family must send a copy of the death certificate to PERF. PERF will confirm the beneficiary of record and assist that beneficiary with the claim filing procedure.

AFTER RETIREMENT

If a retired member dies, the designated beneficiary may be entitled to receive benefits, based upon the retirement option selected by that member.

DEFINED BENEFIT PENSION PAYMENT OPTIONS

You must designate a retirement option on your retirement application. Under each retirement payment option, you will receive a monthly benefit for life. **For options 30, 40, and 50**, if you and your beneficiary live to the actuarially-expected age, total benefits paid under each option are equal.

OPTION 10- Normal Retirement. You will receive a monthly benefit for life. If you die before receiving benefits for five years, your beneficiary will receive either your monthly benefit for the remainder of those five years or the present value of those remaining payments in a lump sum. However, if you receive retirement benefits for more than five years, no further benefits will be paid to anyone, including a surviving spouse, after your death.

OPTION 20- No Guarantee. You will receive a monthly benefit for life, but there are no payments to anyone after your death.

OPTION 30- Joint with Full Survivor Benefits.

You will be paid a monthly benefit for life. After your death, the same monthly benefit will be paid to your beneficiary for his/her life.

OPTION 40- Joint with Two-thirds Survivor

Benefits. You will be paid a monthly benefit for life. After your death, a monthly benefit in the amount of two-thirds of your benefit will be paid to your beneficiary for his/her life.

OPTION 50- Joint with One-half Survivor

Benefits. You will be paid a monthly benefit for life. After your death, a monthly benefit in the amount of one-half of your benefit will be paid to your beneficiary for his/her life.

OPTION 61- Integration with Social Security. If

you retire between the ages of 50 and 62, you may select this option and integrate your PERF benefit with your Social Security benefit. PERF will pay a larger monthly benefit before age 62. At age 62, your benefit will be recalculated. At that time, your benefits could be greatly reduced or terminated depending on your estimated monthly benefit at age 62 from Social Security.

**IMPORTANT NOTICE (PERTAINING TO
RETIREMENT OPTION
NUMBERS 10, 20, 30, 40, 50 AND 61):**

This notice applies in the situation where the death of the member and the beneficiary precedes the time at which assets in the Annuity Savings Account have been completely depleted through payment. If total benefits paid (including payments of both the pension and Annuity Savings Account) fail to exceed the balance in the Annuity Savings Account on the date of retirement, then either the member's or beneficiary's estate will be paid the remaining Annuity Savings Account balance. Please note that if a total distribution of the Annuity Savings Account is chosen as the payment option, this guarantee does not apply. Also, if a partial distribution of the Annuity Savings Account is chosen, this guarantee only applies to the remaining Annuity Savings Account balance.

OPTION 71- Cash Refund Annuity. Like Option 10, you will receive a monthly benefit for life. This benefit will be based on your age, salary and service (employer pension amount) and the amount of money in your Annuity Savings Account. If you die before receiving benefits for five years, your beneficiary will receive either a monthly benefit (the employer pension amount only) for the remainder of those five years, or the present value of those remaining payments in a lump sum. Also upon your death (whether you die before or after receiving five years of benefits), your beneficiary will receive a single payment of the amount remaining in your Annuity Savings Account. Please note that your Annuity Savings Account balance is reduced with each monthly benefit paid. Therefore, if you die after the account has been reduced to zero, there will be no Annuity Savings Account distribution to your beneficiary.

NOTE: Option 71 is not available to members who elect to receive total payment of their Annuity Savings Account upon retirement. However if member elects a partial withdrawal of the Annuity Savings Account (a distribution of the tax basis as of December 31, 1986), Option 71 is available.

CHANGING YOUR PAYMENT OPTION AFTER RETIREMENT

There are only a few limited circumstances in which you will be able to change your retirement option after your actual retirement date. If your beneficiary dies after you retire, you may change your retirement option at the same time you name a new beneficiary. If you are single at the time of your retirement and then you become married, or if you are married and then your spouse dies and you remarry, you may change your retirement option at the time you name a new beneficiary.

You must furnish a copy of your spouse's or beneficiary's death certificate, and in the case of marriage, a copy of your marriage license. We will also need the birth certificate of your new beneficiary for Options 30, 40, and 50. Changing your retirement option will have a significant impact on your monthly benefit.

DESIGNATING A BENEFICIARY

If you select any of the joint with survivor benefit options (30, 40, or 50), you can name only one. If you select retirement option 10, 61, or 71, you may name a person, trust, your estate, or other legal entity as beneficiary. You may name more than one beneficiary. If you name more than one beneficiary, any benefits due upon your death will be prorated among your beneficiaries.

CHANGING YOUR BENEFICIARY AFTER RETIREMENT

If you select Option 10, 61, or 71 at retirement, you may change your beneficiary at any time prior to your death. If you select Option 30, 40, or 50 at retirement and your beneficiary dies after you retire, you may name a new beneficiary. If you are single at the time of your retirement and then become married, or if you are married and then your spouse dies and you remarry, you may change your beneficiary if your current spouse is not your beneficiary, or if you did not name a beneficiary at the time of retirement. You may name only one beneficiary. You must furnish a copy of your spouse's or beneficiary's death certificate, and in the case of marriage, a copy of your marriage license. We will also need the birth certificate of your new beneficiary. Please note that changing your beneficiary may have a significant impact on your monthly benefit.

DIVORCE

Indiana law prevents you or your beneficiary from assigning their PERF benefit. Accordingly, PERF cannot honor any divorce decree which requires it to pay anyone other than you or your legal beneficiary. In order to be consistent with the laws governing PERF, and in order to satisfy Indiana's domestic relations laws, divorce decrees should order you (or your legal beneficiary thereof) to make payments to your ex-spouse, rather than ordering PERF to make such payments. In addition, Indiana law prohibits PERF from garnishing a member's benefit for child support payments or for other purposes.

QUALIFIED DOMESTIC RELATIONS ORDERS (QDRO's)

You should also note that QDRO's do not apply at all to PERF. Even though QDRO's are the product of federal legislation, which normally supersedes state laws, they do not apply to PERF because it is a public plan with anti-alienation statute.

ANNUITY SAVINGS ACCOUNT PAYMENT OPTIONS

One of the fundamental decisions you must make at retirement is how you want to receive your Annuity Savings Account. Upon retirement, your five options for receiving your Annuity Savings Account are as follows:

Choice Number 1 - To have the total amount of your Annuity Savings Account paid as a monthly benefit.

Choice Number 2A - To have the total amount in your Annuity Savings Account (less the mandatory withholding for federal income tax) PAID DIRECTLY TO YOU.

Choice Number 2B - To have all of the taxable portion of your Annuity Savings Account paid in the form of a DIRECT ROLLOVER to an Individual Retirement Account (IRA) or a Qualified Retirement Plan which has provisions allowing it to accept the rollover on your behalf.

Choice Number 2C - (May be selected only if you want a partial rollover amount of at least \$500). To have a part of the taxable portion of your Annuity Savings Account paid in the form of a DIRECT ROLLOVER to an IRA or a Qualified Retirement Plan which has provisions allowing it to accept the rollover on your behalf.

Choice Number 3 - To receive a distribution of the amount equal to your tax "basis" in your Annuity Savings Account balance as it existed on December 31, 1986 and to receive the balance of the account as a monthly benefit.

If you elect Choice 2B or 2C, PERF will deliver to you a check payable to the trustee of the IRA or Qualified Retirement Plan and a separate check payable to you representing your non-taxable portion and any taxable portion not directly rolled over. You will then be responsible for delivering the check to the trustee of the IRA or Qualified Retirement Plan that you specified in your retirement application.

You must make your choice when completing the Application for benefits.

NEW ELECTION TO DEFER PAYMENT ANNUITY SAVINGS ACCOUNT AT RETIREMENT

You may choose, upon retirement, to defer receiving your Annuity Savings Account and continue investing the monies in the option of your choice. As of the first day of any given month during retirement, you may elect to receive your annuity balance under any of the annuity choices 1, 2A, 2B, 2C, or 3 listed above. You must begin withdrawal of your annuity balance in the year following the year you become age 70½ in accordance with applicable IRS regulations. For further information, contact the PERF office.

INCOME TAXES

The income tax treatment of your benefit payment will vary depending upon how you choose to receive your retirement or disability benefit. Your pension benefit is taxable as ordinary income. The tax treatment of your Annuity Savings Account will depend on the option you choose.

You may also be subject to additional taxes and penalties. Please read the information regarding Additional Taxes described later in this section.

Your five options for receiving your Annuity Savings Account are as follows:

Choice Number 1 - To have the total amount of your Annuity Savings Account paid as a monthly benefit. If you elect Choice 1, any non-taxable basis you have will be recovered on a pro-rata basis over a predetermined number of payments based on your age at the time benefits start. The balance of each benefit payment will be fully taxable. Unless you elect otherwise on your federal tax withholding form, PERF is required to withhold in accordance with IRS guidelines.

Choice Number 2A - To have the total amount in your Annuity Savings Account (less the mandatory withholding for federal income tax) PAID DIRECTLY TO YOU. If you elect Choice 2A, PERF is required to withhold 20% of the taxable portion. The taxable portion of the Annuity Savings Account consists of:

- all 3% contributions paid by the employer; and
- all earnings.

You will have to pay state and federal income tax on this taxable portion. You may still rollover the taxable portion into a Qualified Retirement Plan or IRA. For the tax consequences of making a rollover yourself, please refer to the IRS Special Tax Notice in your Retirement Application.

Choice Number 2B - To have all of the taxable portion of your Annuity Savings Account paid in the form of a DIRECT ROLLOVER to an Individual Retirement Account (IRA) or a Qualified Retirement Plan which has provisions allowing it to accept the rollover on your behalf.

If you elect Choice 2B, the taxable portion of your payment will not be taxed in your current year and no income tax will be withheld. You will be taxed later when you receive a distribution from the IRA or Qualified Retirement Plan. The non-taxable portion will be paid directly to you.

Choice Number 2C - To have a part of the taxable portion of your Annuity Savings Account paid in the form of a DIRECT ROLLOVER to an IRA or a Qualified Retirement Plan which has provisions allowing it to accept the rollover on your behalf.

(May be selected only if you want a partial rollover amount of at least \$500). If you elect Choice 2C, the non-taxable portion will be paid directly to you.

Also, the “part” of the taxable portion of the distribution which is not directly rolled over (less the mandatory withholding for federal income tax) will be *paid directly to you*. The taxable portion of the Annuity Savings Account consists of:

- all 3% contributions paid by the employer; and
- all earnings.

For any part of the eligible rollover distribution that is not directly rolled over, PERF is required by law to withhold 20% for federal income taxes. You will have to pay federal and state income taxes on this taxable portion. You will not be taxed in the current year and no income tax will be withheld on the DIRECT ROLLOVER amount. You will be taxed later when you receive a distribution from the IRA or Qualified Retirement Plan.

Choice Number 3 - To receive a distribution of the amount equal to your tax “basis” in your Annuity Savings Account balance as it existed on December 31, 1986 and to receive the balance of the account as a monthly benefit. If you elect Choice 3, the income tax consequences will be determined as follows:

1. In accordance with a letter ruling received from the IRS, the “basis” that existed on 12/31/86 will be recovered tax-free.
2. Any “basis” after 12/31/86 will be recovered on a pro-rata basis over a pre-determined number of payments based on your age at the time benefits start.
3. The remainder of your Annuity Savings Account and your pension benefits will be fully taxable in the year received.

ADDITIONAL TAXES

You may be subject to an additional 10% federal tax penalty on your Annuity Savings Account refund if you have not reached the age of 59½ at the time of your separation from employment.

A number of exceptions to this additional 10% tax are available, including, but not limited to, the following:

- payments on your death,
- payments due to disability,
- payments made to an employee who has attained age 55, then separated from service, and who satisfied the requirements for early retirement (15 years of creditable service).

If you separate from employment prior to age 55, you may be able to avoid the additional 10% penalty tax, if you select a retirement option on your Application for Retirement Benefits which would provide payments to you in substantially equal amounts. Based on the IRS guidelines, PERF believes the following Options would satisfy this requirement:

- Option 10 (Normal Retirement)
- Option 20 (No Guarantee)
- Option 30 (Joint and Full Survivor Benefits)
- Option 61 (Integration with Social Security)
- Option 71 (Cash Refund Annuity)

You should consult the IRS or your professional tax advisor if you need further information regarding the taxes on benefit payments. It is your responsibility to maintain a benefit payment record for tax purposes.

WORKING AFTER RETIREMENT

Earning Limitation for Re-employed Retired Members

In 2001, the Indiana General Assembly approved an earning test for retirees who become re-employed in a position covered under PERF and the Teachers' Retirement Fund, which works to conform Indiana law with the federal Senior Citizens Freedom to Work Act of 2000.

The law applies to all current and newly retired members. Effective July 1, 2001, the new law stipulates:

1. There will be no earnings test on PERF benefits for those retired members who are of Social Security normal retirement age (currently age 65 for those born 1937 or earlier).

2. Retirees below the Social Security normal retirement age who become re-employed in a position covered under PERF or the Teachers' Retirement Fund may earn up to \$25,000 for the calendar year of 2002 before their benefits are suspended for the remainder of the calendar year.

For those retirees who are subject to the earnings test and become re-employed in a covered position, they may continue receiving retirement benefits until their earnings exceed the annual earnings test amount. For any retiree who is re-employed in a covered position, a second retirement benefit will be calculated and added to the original benefit at the time the person retires from re-employment. Members who retire a second time may have their benefits estimated one year before retirement by completing the PERF Estimate Request form. It is important that they write "Second Retirement" on the form. They can submit their application for retirement benefits within sixty days of their effective date of benefits.

Regardless of age, if a retired member comes back to work in a covered position, they will be re-enrolled in the Fund and employer contributions shall recommence. The mandatory 3% employee contribution will resume only when the earnings limit is met and the benefit is suspended. At the time a re-employed retired member under the normal retirement age exceeds the \$25,000 limitation in a covered position, their benefits will be suspended for the remainder of the calendar year. Benefits will be reinstated at the beginning of the next calendar year and will remain in force until the member exceeds the annual limit once again.

IC 5-10.2-4-8(c): State law also requires the Fund to stop paying benefits to retired members who become re-employed in a PERF-covered position within 90 days of their retirement date.

ELECTION OR APPOINTMENT TO AN ELECTED POSITION

State law provides that if a member of PERF who is receiving retirement benefits is elected or appointed to an elected position covered by PERF, the member must elect to either continue or discontinue retirement benefits while in the elected position. This election is irrevocable and must be in writing. If the member chooses to continue benefits, he/she does not have to make contributions to PERF; however, in that case no creditable service will be accrued for service in the elected position. If the member chooses to discontinue retirement benefits, he or she must make the contributions to PERF and creditable service will be earned for the service in the elected position. At the end of the elected term, retirement benefits will be re-calculated using the additional service, salary (if higher) and contributions.

MINIMUM DISTRIBUTION REQUIREMENTS

Members of PERF are required to comply with the “minimum distribution” requirements under the Internal Revenue Code. Generally, under these requirements, a member who has separated from employment with his or her PERF-covered employer must begin receiving a distribution from PERF no later than April 1 of the calendar year following the year in which the member reaches age 70½.

COMMUNICATING WITH PERF

CHANGE OF NAME AND/OR ADDRESS

After you become a member, it is extremely important that you keep your name and/or address current with PERF. The fund mails out periodic updates on your service, quarterly statements on the performance of your Annuity Savings Account, and an informational newsletter. These will not reach you if we do not have your current address.

You can report any change on the PERF Change of Name and/or Address Form, which can be obtained from your employer or from the PERF web site. If you have difficulty obtaining this form, you may submit changes to PERF in writing. Written notification should include the following information:

- Social Security Number,
- Previous Name and/or Address,
- New Name and/or Address,
- Printed Name and Signature

The change of name request must be accompanied by the appropriate legal documentation such as a court order, divorce decree, or marriage license.

MAILING ADDRESS

When you write to PERF, please furnish your full name, current address, and Social Security number.

Public Employees' Retirement Fund
Harrison Building
143 West Market Street
Indianapolis IN 46204

CALLING

Office hours are from 8:00 a.m. to 5 p.m., Monday through Friday, except on state holidays.

Indianapolis & vicinity	(317) 233-4162
TDD (hearing impaired)	(317) 233-4160
FAX Number:	(317) 232-1614
Toll-free Number:	1-888 526-1687

PERF on the Internet: *www.perf.in.gov*

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